

Message Text

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TAGS: EIND, UR
SUBJECT: ALCOA/KLOECKNER DISCUSSIONS WITH SOVIETS ON
SAYANSK ALUMINUM SMELTER

REF: 76 MOSCOW 15181

1. ALCOA REPRESENTATIVE, ROGER C. SHARP AND TWO ASSOCIATES FROM GERMAN FIRMS KLOECKNER AND CO. AND KHD MET WITH COMOFF OF MARCH 13 AND DISCUSSED THEIR LATEST ROUND OF TALKS THEY HAD RECENTLY WITH SOVIETS ON PROPOSED \$500 MILLION ALUMINUM SMELTER TO BE CONSTRUCTED IN CENTRAL SIBERIA. SHARP STATED THAT ALCOA CONSORTIUM NOW HAS LEG UP ON FRENCH CONSORTIUM LED BY PECHINEY. ALCOA GROUP, HOWEVER, WILL HAVE TO REASSESS VALUE OF GOING AHEAD WITH COSTLY RE-ENGINEERING WORK ON PROPOSAL IF SOVIETS AGREE ONLY TO ACCEPT SMELTER DESIGN WHICH MUST USE FLOUR-TYPE ALUMINA THAT SOVIETS NOW PRODUCE. ALCOA PROCESS EMPLOYS SO-CALLED COARSE SANDY ALUMINA, WHICH ACCORDING TO SHARP IS THE KIND FOR WHICH ALCOA SMELTER IS DESIGNED AND IS MORE ENVIRONMENTALLY ACCEPTABLE. SHARP INDICATED THAT IT WOULD BE A MATTER OF YEARS BEFORE THE ALCOA DESIGN COULD BE ADAPTED AND

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TESTED FOR THE SOVIET-TYPE ALUMINA. (HE NOTED THAT FRENCH DESIGN ACCEPTS FLOURY TYPE.) THIS ACCORDING TO SHARP IS THE MAIN HANG-UP IN THE TALKS. HE SAID THE SOVIETS REALIZE THAT MANY ALUMINUM PRODUCERS HAVE ALREADY SWITCHED OR ARE IN THE PROCESS OF SWITCHING TO THE COARSE ALUMINA. HE FURTHER NOTED THAT THE COARSE ALUMINA IS CURRENTLY ABOUT \$4.50 PER TON MORE EXPENSIVE

TO PRODUCE THAN THE FLOUR TYPE, BUT THAT THIS IS MORE THAN RECOVERED IN THE GREATER YIELD PER UNIT OF INPUT USING ALCOA'S DESIGN.

2. SHARP BRIEFLY CITED THE SPECIFICS OF THE PROPOSED PLANT, A 500,000 METRIC TON ANNUAL OUTPUT, INVOLVING FIVE POTLINES, WITH POWER CONSUMPTION ESTIMATED AT 14,900 KWH PER METRIC TON. TOTAL COST OF PROJECT ABOUT \$U.S. 500 MILLION OF WHICH \$400 MILLION WOULD BE FINANCED UNDER ARRANGEMENT WITH GERMAN PARTNERS USING EXPORT CREDITS, AND \$100 MILLION IN FINANCING ARRANGED BY ALCOA.

3. COMMENT: FROM WHAT MR. SHARP HAS TOLD US, SOVIETS ARE INDEED INTERESTED IN ALCOA DESIGN, AND ARE NOT USING COMPANY AS A FOIL AGAINST PECHINEY, AS HAD BEEN THE CASE WITH THE ALUMINA PLANT ON THE BLACK SEA. IF SOVIETS ARE WILLING TO DEVELOP THEIR OWN COARSE-TYPE ALUMINA, WHICH ACCORDING TO SHARP IS WELL WITHIN THEIR TECHNICAL CAPABILITY, THEN, UNLESS FRANCO-SOVIET POLITICAL VARIABLES DICTATE OTHERWISE, ALCOA/KLOECKNER SHOULD CLOSE THE DEAL. SHARP WOULD NOT SAY IN DISCUSSION WITH COMOFF BUT HIS GERMAN ASSOCIATES INDICATED THAT THEY WILL SHORTLY HAVE TO PRESENT SOVIETS WITH A DEAD-LINE FOR DECISION ABOUT ADOPTING NEWER TYPE OF ALUMINA.

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4. FYI: THIS INFORMATION WAS GIVEN TO US ON STRICT BUSINESS CONFIDENTIAL BASIS. END FYI. TOON

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